FEDERAL FINANCING BANK

WASHINGTON, D.C. 20220

FEDERAL FINANCING BANK LENDING POLICY

Objectives

The Federal Financing Bank should be the vehicle through which Federal agencies finance programs involving the sale or placement of credit market instruments, including agency securities, guaranteed obligations, participation agreements and sale of assets. This principle is applied in the manner consistent with the Federal Financing Bank Act of 1973 (12 U.S.C. 2281 et seq.) and its legislative history. Guaranteed programs entailing large numbers of relatively small loans in which local origination and servicing are an integral part of the program, are excluded.

The Bank makes funds available to Federal agencies and to guaranteed borrowers in accordance with program requirements and at the lowest interest rate possible.

General Principles

1. The Bank provides a lending rate for any amount required and for any maturity. All agencies, regardless of the past marketability of their own securities, are treated on a common basis by the Bank. Allowances in the rate charged by the Bank for unusual terms such as prepayment provisions, forward commitments concerning interest rates and pass through of service charges are on a common basis for all borrowers.

2. Whenever the function of determining appropriate terms and timing of agency borrowing by law or custom currently falls within the province of the Secretary of the Treasury, it remains a matter for the Secretary of the Treasury.

3. The lending policy of the Federal Financing Bank is flexible enough to avoid the need for any accumulation of pools of funds by agencies. This does not exclude the maintenance of liquidity reserves for those agencies that have such a need but in no case will such funds be invested in private credit instruments or be used to speculate in the market for public securities.

Terms of Lending

The Federal Financing Bank Act provides in Section 6(a): “The Bank is authorized to make commitments to purchase and sell, and to purchase and sell on terms and conditions determined by the Bank, any obligation which is issued, sold, or guaranteed by a Federal agency. Any Federal agency which is authorized to issue, sell, or guarantee any obligation is authorized to issue or sell such obligations directly to Bank." (12 **U.S.C.** 2285(a))

It is the policy of the Bank to charge a rate 1/88 above the new issue curve of marketable U.S. Treasury securities. Additional charges over and above the 1/88 spread are made for loan provisions which increase the Bank's costs at the Treasury or for extraordinary services which increase the Bank's administrative costs.

In general the Bank's policy concerning services or loan provisions are as follows:

1. Service Charges. Under ordinary circumstances the Bank does not assess service charges for the granting or maintaining of a loan. However, if the Bank is involved in payments for servicing credits originally extended by a government agency and sold to the Bank, the cost of such servicing is borne by the program agency 'or the borrower; i.e., the basic rates charged by the Bank are net of any servicing cost.

2. Prepayment and Refinancina Privileges.

A. Prepayment. The Bank will offer borrowers a choice of prepayment privileges on terms consistent with the protection of the Bank and the Treasury from financial loss. A borrower must select which prepayment privileges it wishes to be applied to any loan before borrowing from the Bank (or before the effective date of any maturity extension or any refinancing of such loan). The following two prepayment privileges are approved for loans made by the Bank:

1. Market-Value Repurchase Privilege: The standard prepayment privilege will allow a borrower to repurchase its loan at any time at a price equal to the market value (as determined by the Treasury) of the unpaid payment obligations on the loan through its maturity This prepayment privilege will be offered to the borrower at no additional cost beyond the 1/8th of 1 percent spread charged on all loans made by the Bank.

2. Fixed-Price Prepayment Privilege: A second prepayment privilege will allow a borrower to prepay its loan either at any time or after an agreed-upon no call period, and either at a fixed price or at par, in each case as selected by the borrower before borrowing from the Bank (or before the effective date of any maturity extension or any refinancing of such loan). This prepayment privilege

will be offered to the borrower at an additional cost (beyond the 1/8th of 1 percent spread charged on all loans made by the Bank) equal to the interest rate spread that the Treasury determines would be charged on an obligation issued by the Secretary of the Treasury having prepayment provisions identical to the particular prepayment provisions selected by the borrower. At the borrower's option, the additional cost for a fixed-price prepayment privilege may be paid in a single payment equal to the present value of the interest rate spread over the term of the loan.

B. Refinancing. The Bank will offer borrowers refinancing privileges at costs and on terms that are consistent with the prepayment privileges offered by the Bank to borrowers.

3. Commitment of Funds. The Bank is willing to assure the availability of funds to eligible borrowers without fee at an interest rate to be determined at the time the loan is made. Such assurances are dependent upon the agencies' adherence to the terms of its statute and subject to any necessary approvals outside the framework of the Bank. In return for such a commitment, the borrower or guaranteeing agency will agree, if permitted by its statutes, to finance solely with the Federal Financing Bank.

4. Commitment of Rates. The Bank ordinarily sets loan rates at the time funds are disbursed. If program requirements necessitate future rate commitments in connection with a firm borrowing commitment, the cost of the future rate commitments will be borne by the borrower.

5. Lines of Credit. Line-of-credit type loans are made if program requirements necessitate. The Bank generally arranges such lines of credit for 91-day periods at a fixed charge above the Treasury 91-day bill rate (coupon equivalent) for advances made during the period.

6. Purchase of Guaranteed Tax-Exempt Issues. The Federal Financing Bank Act provides in section 16:

> "(a) Notwithstanding any other provision of this Act, the purchase by the Bank of the obligations of any local public body or agency within the United States shall be made upon such terms and conditions as may be necessary to avoid an increase in borrowing costs to such local public body or agency as a result of the purchase by the Bank of its obligations. The head of the Federal agency guaranteeing such obligations, in consultation with the Secretary of the Treasury, shall estimate the borrowing costs that would be

incurred by the local public body or agency if its obligations were not sold to the Bank.

(b) The Federal agency guaranteeing obligations purchased by the Bank may contract to make periodic payments to the Bank which shall be sufficient to offset the costs to the Bank of purchasing obligations of local public bodies **or** agencies upon terms and conditions as prescribed in this section rather than as prescribed by section 6. Such contracts may be made in advance of appropriations therefor, and appropriations for making payments under such contracts are hereby authorized."

In implementing this provision the Bank will consult with the agency involved looking toward the purchase of these securities at a rate commensurate with the highest quality municipal security of similar terms. The difference between this rate and the normal FFB lending rate will be determined and a. contract for the difference will be entered into between FFB and the agency involved.